

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Chan, et al. Analyst: Rachel Coco Bill Number: AB 6

Related Bills: See Prior Analysis Telephone: 845-4328 Amended Date: May 27, 2005 & June 15, 2005

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** PIT Rates/Increase Maximum Rates To 10% & 11%/AMT Rate To 8.5%

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED  
May 27, 2005, STILL APPLIES.

X OTHER – See comments below.

**SUMMARY**

This bill would make the top personal income tax (PIT) rates 10% and 11% and would make the alternative minimum tax (AMT) rate 8.5%. This bill also would reduce the amount of tax paid under the new tax rates by the amount of tax imposed under Proposition 63, as explained below under “This Bill.”

**SUMMARY OF AMENDMENTS**

The June 15, 2005, amendments added language that would appropriate the revenue generated from the increased tax rates to education funding. The amendments would also make the rates permanent.

The May 27, 2005, amendments added back the specified tax rates of 10% and 11% and the AMT rate of 8.5% that were removed in the prior version of the bill dated May 23, 2005.

As a result of the amendments, a technical concern has been identified. In addition, the “This Bill” discussion as provided in the analysis of the bill as introduced December 6, 2004, has been revised because since the department’s last full analysis of this bill, first quarter consumer price index information for 2005 has been received, which changed the threshold amounts. The “Economic Impact” has also been revised using the new tax model. The remainder of the department’s analysis of the bill as introduced December 6, 2004, still applies.

Board Position:

\_\_\_\_\_ S \_\_\_\_\_ NA \_\_\_\_\_ NP  
 \_\_\_\_\_ SA \_\_\_\_\_ O \_\_\_\_\_ NAR  
 \_\_\_\_\_ N \_\_\_\_\_ OUA \_\_\_\_\_ X PENDING

Legislative Director

Date

Jana Howard

7/12/05

## EFFECTIVE/OPERATIVE DATE

As an urgency statute, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2005.

## POSITION

Pending.

## THIS BILL

The current top PIT rate is 9.3%. For taxable years beginning on or after January 1, 2005, this bill would establish a PIT rate of 10% for:

- Single filers (including married filing separate) whose taxable income is over \$143,421 and equal to or less than \$286,843,
- Joint filers whose taxable income is over \$286,843 and equal to or less than \$573,686, and
- Head of household filers whose taxable income is over \$195,218 and equal to or less than \$390,436.

This bill would establish a PIT rate of 11% for:

- Single filers (including married filing separate) whose taxable income is over \$286,843,
- Joint filers whose taxable income is over \$573,686, and
- Head of household filers whose taxable income is over \$390,436.

For example:

### 2004 Tax Brackets And Rates For Single Filers

\$0	-	\$6,147	1.0%
\$6,147	-	\$14,571	2.0%
\$14,574	-	\$22,997	4.0%
\$22,997	-	\$31,925	6.0%
\$31,925	-	\$40,346	8.0%
\$40,346	-	And Over	9.3%

### Projected 2005 Tax Brackets And Rates For Single Filers As Proposed

\$0	-	\$6,301	1.0%
\$6,301	-	\$14,935	2.0%
\$14,935	-	\$23,572	4.0%
\$23,572	-	\$32,723	6.0%
\$32,723	-	\$41,355	8.0%
\$41,355	-	\$143,421	9.3%
\$143,421	-	\$286,843	10%
\$286,843	-	And over	11%

Note: The 2005 tax bracket amounts identified above are only projections at this time due to the annual indexing adjustment, which is based on data that is not available until the end of June, 2005.

This bill provides that the 10% and 11% brackets would be adjusted annually for inflation.

This bill also would increase the AMT rate to 8.5% for individual taxpayers for taxable years beginning on or before January 1, 2010.

This bill specifies that the amount of tax imposed under the increased tax rates shall be reduced on a dollar-for-dollar basis by an amount equal to the tax imposed under Proposition 63. For example, a taxpayer whose taxable income is \$1.5 million would be subject to a tax of \$5,000 under Proposition 63, to be deposited into the MHS fund. Under this bill, the \$5,000 of tax imposed under Proposition 63 would be subtracted from the amount of the taxpayer's total tax liability. Because the tax imposed under Proposition 63 is deposited into the MHS fund rather than the General Fund, the revenue increase from the 10% & 11% tax rates is less than if Proposition 63 had not been enacted.

This bill would also appropriate the revenue generated by the increased tax rates to fund education as follows:

- \$1.157 billion to Section A of the State School Fund for allocation by the Superintendent of Public Instruction (SPI) during fiscal year 2005/06.
- \$143 million to Section B of the State School Fund for allocation to community college districts by the Chancellor of the California Community Colleges (CCC) for fiscal year 2005/06.
- \$801 million to the SPI to be allocated to school districts without regard to fiscal year for purposes of reimbursing school districts for state-mandated local costs.
- \$99 million to the Chancellor of the CCC to reimburse community college districts for state-mandated local costs and other one-time purposes.

## ECONOMIC IMPACT

### Revenue Estimate

This bill would result in the following revenue gains:

Estimated Revenue Impact of AB 6 Taxable Years Beginning On Or After January 1, 2005 Assumed Enactment After June 30, 2005 Fiscal Years (\$ Billions)		
2005-06	2006-07	2007-08
+\$2.4	+\$1.8	+\$2.0

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

### Revenue Discussion

Proposition 63 imposes an additional 1% tax on the portion of taxable income that exceeds \$1 million and requires that revenue to be deposited into a fund for mental health services instead of the General Fund. As a result, the above estimate is based on the figures generated using the department's personal income tax model reduced by the amount of tax to be imposed under Proposition 63. This bill is estimated to impact approximately 360,000 taxpayers.

### **TECHNICAL CONSIDERATION**

The amendments removed the sunset date for the increased PIT rates, making the rates permanent. The provision containing the increased AMT rates still contains a sunset date of January 1, 2010. If the author intends for both the PIT rates and AMT rate to be permanent, the AMT sunset date should be removed. An amendment has been provided to address this concern.

### **LEGISLATIVE STAFF CONTACT**

Rachel Coco  
Franchise Tax Board  
(916) 845-4328  
[rachel.coco@ftb.ca.gov](mailto:rachel.coco@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
(916) 845-6333  
[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)

Analyst	Rachel Coco
Telephone #	845-4328
Attorney	Patrick Kusiak

FRANCHISE TAX BOARD  
PROPOSED AMENDMENTS TO AB 6  
As Amended June 15, 2005

AMENDMENT 1

On page 10, strikeout lines 18 and 19, inclusive.

Board Position:			Legislative Director	Date
<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP	Jana Howard	7/12/05
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR		
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING		